

World Bank Group

International Bank for Reconstruction and Development (IBRD)

FY2005 Appropriation	FY2006 Scheduled Request	FY2006 Arrears Request	FY2006 Total Request
\$0	\$0	\$0	\$0

The IBRD lends at market-based rates to lower and middle income developing countries to finance key poverty reduction investments and economic policy reforms. The IBRD is a AAA rated borrower on international financial markets and issues bonds to fund the bulk of its lending operations. However, a substantial part of the IBRD's loanable resources comes from its retained earnings and the flow of repayments on outstanding loans. The last general capital increase of the World Bank was agreed to in 1988, and the U.S. paid the last installment of its subscription to the IBRD's capital in FY1996.

Key Facts

- In terms of voting shares, the U.S. is the single largest shareholder in the IBRD with 16.4%.
- The IBRD made new loan commitments of \$11 billion in WBFY04, bringing its cumulative lending commitments to \$393 billion.
- IBRD net income for WBFY04 was \$1.66 billion. Of this, \$660 million was transferred to reserves; \$300 million to IDA; \$240 million to the HIPC Trust Fund; \$50 million to the Debt Reduction Facility for IDA-only Countries; and \$405 million to the surplus account.
- With net loans disbursed and outstanding of \$110 billion in FY04, the IBRD is well within its statutory lending limit of \$211 billion – the sum of subscribed capital (\$190 billion) plus reserves and surplus (\$21 billion).
- During WBFY04, 26% of new IBRD lending went for transportation, energy and mining; 25% for law, justice and public administration; 21% for education and health; 17% for finance and industry/trade; and 12% for agriculture, water and environment.
- In FY04, 27% of new IBRD lending was for Europe and Central Asia; 45% for Latin America and the Caribbean; 15% for East Asia and the Pacific; and 4% for South Asia.

Notes: Internet website: www.worldbank.org

All institutions in the World Bank Group use the World Bank Fiscal Year: July 1- June 30.

Supporting U.S. Objectives

The activities of the IBRD promote a number of U.S. economic and foreign policy objectives. However, there is room for improvement. To that end, the U.S. has been working towards a number of reforms in the World Bank, including:

- Measurable Results: As the U.S. has been pushing throughout the World Bank Group (especially in IDA), the IBRD should increase its focus on measuring the outcomes of its assistance, demonstrating on-the-ground results and incorporating a results-based culture into the everyday workings of the Bank. The IDA-14 Agreement should help to move the IBRD toward a greater focus on measuring results.
- Private Sector Development: The U.S. has urged the World Bank to increase its support of private sector development through policy reform, investment climate surveys, and lending that promotes public/private partnerships.
- Focus on Productivity: Productivity growth as a driver of poverty reduction should be the Bank's overarching objective. A greater emphasis by the World Bank on projects that directly contribute to productivity growth is required.
- Focus on Countries Committed to Reform: The World Bank should be focused on good performers that can use its assistance most effectively. In addition, increased selectivity is needed in the use of policy-based lending, which should be focused on countries with strong macroeconomic policies and sound, transparent fiduciary systems.
- Coordination: More work is needed to bring greater consistency, simplicity and clarity where more than one multilateral development bank is operating in a particular country. This is particularly important in the development of the World Bank's Country Assistance Strategies (CAS).

Key World Bank Achievements in FY03

Results Measurement

The World Bank, pushed on by IDA-13 commitments, is farthest along, among the MDBs, toward meeting the U.S. objective of incorporating results measurement frameworks at the project, country, sector and institutional levels:

- Most lending operations now contain a results framework, though they are of varying quality. In particular, additional work is needed on results measurement in budget support operations.
- A pilot program of eight results-based country assistance strategies is underway, linking Bank assistance to the country's development objectives and measured progress toward achieving them.
- The Bank is converting its existing annual report on development effectiveness into a results-focused publication, looking at the institution's outcomes and achievements.

- There is commitment in principle to incorporate results measurement into sector strategies.
- The quality of monitoring and evaluation is good, and there is a strong *independent evaluation unit*.
- An area for further work is determining how to provide rewards for results in an institution where staff often rotate before project outcomes are known.

Combating Terrorism and Money Laundering

Following the September 11th events, and at the urging of the U.S., the World Bank has participated in the international effort to combat terrorist financing and money laundering. The Bank has provided technical assistance and support for capacity building; worked to improve understanding of the development cost and governance impact of money laundering and financial abuse; coordinated its efforts with relevant anti-money laundering groups; enhanced anti-money laundering (AML) diagnostics; and strengthened its financial management and procurement procedures to guard against Bank funds being diverted to terrorists or their agents. Since September 2001, the Bank and the IMF have completed, initiated, or agreed to deliver 52 technical assistance programs to 40 countries and 12 regions.

- The World Bank has provided or is providing assistance to several countries, including Albania, Algeria, Colombia, Indonesia, Jamaica, Mauritius, Russia, Turkey and Ukraine, to design anti-corruption measures, including AML regimes, strengthen banking supervision and regulation practices to meet international AML standards, introduce best practices in AML laws and regulations; and facilitate the establishment of payment systems that will enhance the ability of authorities to identify suspicious transactions.
- Colombia: A \$150 million IBRD loan will strengthen Colombia's financial system by consolidating the state-owned banking sector and provide funding to the microcredit and capital market sectors.
- Mexico: A \$505 million IBRD structural adjustment loan will support the creation of a new rural financial institution that benefits farmers and small and medium enterprises.

Anti-Corruption, Governance, and Fiscal Transparency

Support for countries' efforts to combat corruption has been mainstreamed and is today more than double what it was in FY96. Effective public spending and strong public expenditure management are crucial for poverty reduction and essential to ensure that development assistance is utilized as intended. IBRD efforts to combat corruption and promote good governance include:

- Guatemala: A \$30 million IBRD loan to support the expansion of the central government's integrated financial management system, which establishes a control framework over budget implementation.

- Ecuador: A \$20 million IBRD loan to make customs, procurement, civil service, and selected services more efficient, effective, transparent, and accountable
- Philippines: A \$22 million IBRD loan to improve access to justice through the implementation of modern case management techniques, planning and tools, and the upgrading of information and communication systems.
- Bulgaria: A \$150 million IBRD loan to improve public sector governance, including implementing the anti-corruption strategy, strengthening local governments, and reforming public administration and the judiciary.

Increasing Productivity and Raising Living Standards

The IBRD has undertaken a number of initiatives to increase productivity and raise living standards in IBRD countries, including the following:

- Argentina: A \$200 million loan to preserve the condition of vital road assets and strengthen road sector management.
- Jordan: A \$38 million loan to develop efficient transport and logistics services by removing transport bottlenecks and providing access to affordable land for investment and urban development purposes.
- Mexico: A \$300 million loan to improve the competitiveness of irrigated agriculture and the efficiency of water use.

Education and Health

The IBRD is funding a number of initiatives in the education and health sectors, including the following:

- China: A \$100 million loan to construct school facilities, strengthen management administration, and implement strategies to improve the quality of teaching and learning in the western provinces.
- Paraguay: A \$24 million loan to improve management and efficiency in the education sector, and improved access to secondary education
- Turkey: A \$61 million loan to improve the governance, efficiency, and user satisfaction, and long-term fiscal sustainability of the healthcare system.

Promotion of Market-Oriented Economies and Private Sector Development

The IBRD engages in many private sector development initiatives with borrowing countries, providing opportunities to the poor through market-friendly, enterprise-led growth. These activities include the following:

- Peru: A \$45 million loan to improve transport accessibility in the Lima Metropolitan area, thereby contributing to higher economic productivity and lower transportation costs.
- Romania: A \$200 million loan to improve the efficiency of the railways and road sectors, and thereby reducing the overall costs of transportation.
- Argentina: A \$500 million loan to support domestic industries through improvements in the investment climate, reducing exchange controls, improving reimbursement of taxes and duties to exporters, and promoting linkages between large and small and medium enterprises.

Support of Sound Financial Sectors and Financial Crisis Response

The World Bank has long recognized that poverty reduction and economic growth largely depend on effective, well-regulated financial systems. In addition to increasing vulnerability to economic crises, weak financial systems prevent individuals and small to medium-sized enterprises from gaining access to capital and financial services. The Bank supports the development of sound financial sectors through knowledge dissemination, lending and technical assistance, and partnerships. The IBRD also provides support in the event that countries become overwhelmed by financial market emergencies. Examples of financial sector engagement include:

- Turkey: A \$1 billion loan to meet external and budgetary financing requirements, thereby supporting the Government's short and medium-term reform goals in the financial and public sectors, and to help protect critical social spending.
- Uruguay: A \$101 million public services and social sector structural adjustment loan to ensure maintenance of public health and education services during the economic crisis.
- Pakistan: A \$24 million loan to improve tax administration through voluntary compliance, increasing the overall collection result, and guaranteeing fairer and more equitable application of tax laws.

Trade

The World Bank supports global economic integration by focusing its work on two central objectives. At the international level, the Bank supports reforming the world trading system to make it more supportive of development. At the country level, the Bank supports developing countries' efforts to improve their policies, institutions and infrastructure in order to facilitate trade as a stimulus for economic growth and poverty reduction. Examples of these activities include:

- Thailand: A \$84 million loan to enhance the efficiency, productive use, and management of the road network, thereby improving access to national ports and export markets.
- Tunisia: A \$36 million loan to improve access to export markets and finance, and enhance the efficiency and performance of trade clearance processes including customs operations and technical controls.
- Egypt: A \$335 million loan to reduce airport traffic bottlenecks, particularly for tourism and associated foreign exchange earnings, and to raise the service quality of the Cairo International Airport and Sham El Sheikh Airport to international best practice standards.

Information Disclosure

In September 2001, the World Bank's Board approved revisions to the Bank's policy on the disclosure of information, making changes that will bring greater transparency and accountability to the Bank's support for the development process.

- The disclosure policy now permits public access to documentation throughout the entire project cycle, from preparation through implementation to independent evaluation. Documents in which the Bank's independent evaluation arm – the Operations Evaluation Department – reviews Management performance in various operational processes will also be disclosed.
- The World Bank makes Project Information Documents, Project Appraisal Documents, Environmental Assessments and summaries of Operational Evaluations Reports publicly available. Most of these documents are available on the Bank's website (www.worldbank.org).
- Nearly 70% of projects approved by the World Bank during the last fiscal year involved the participation of non-governmental organizations (NGOs), and all of the Bank's country strategies benefited from NGO consultations.

Internal Institutional Controls

In November 2000, the World Bank created the Department of Institutional Integrity (INT) out of two preexisting offices tasked with combating corruption. The INT has played an important role in investigating allegations of misconduct by firms, individuals, and Bank staff. INT also supports training for Bank staff to identify ways to detect and deter fraud and corruption in Bank operations. In order to be proactive, anti-fraud and corruption training is provided by INT to all new Bank operations staff as part of their introductory training. The Bank has a hotline (1-800-831-0463) where the public or staff can report incidents of corruption or other inappropriate practices. A policy to provide whistleblower protection is in place and complaints may be made anonymously or confidentially.

The Bank has instituted several reforms that attempt to eliminate conflicts of interests and possible corrupt practices among its staff. In 2003, the Bank announced the strengthening of financial disclosure obligations for senior staff. All of the Bank's senior managers and Board members are now required to provide an annual statement listing their financial interests and those of their immediate families.

The Bank's Internal Auditing Department (IAD) guides World Bank management in establishing and maintaining strong internal controls and risk management procedures. IAD performs audits of the internal controls of business processes to assess their integrity, and provides advice on the design, implementation, and operation of internal control systems. In 1997, a special unit within IAD was created specifically to review all allegations and guard against fraud or corruption within the World Bank Group. This group works with the Oversight Committee Against Fraud and Corruption.

Disaster Assistance

The World Bank continues to play a role in many cases in providing reconstruction assistance following natural disasters, and is giving growing attention to disaster prevention. In the last five years, lending for reconstruction has totaled approximately \$4.3 billion.

- St. Lucia: A \$4 million loan to reduce vulnerability to adverse natural disasters through investment in risk management activities.
- Romania: A \$120 million loan to close environmentally hazardous mines and assist affected communities.

Environmental Improvement and Sustainability

The IBRD funds a number of initiatives to further the goals of environmental improvement and sustainability, including the following:

- Croatia: A \$47 million loan to construct and expand sewerage networks, main collectors, pumping stations, wastewater treatment plants, and submarine outfalls in Adriatic coast communities.
- Turkey: A \$20 million loan to support sustainable natural resource management practices in 28 micro-catchments in Anatolia and Turkey's Black Sea Region.

Labor

The U.S. strongly supported the ultimately successful effort in 1999 to admit the International Labor Organization (ILO) as an observer to both the Development Committee of the World Bank and IMF and the International Monetary and Finance Committee (formerly the Interim Committee) of the IMF. These Committees are ministerial level policy-making bodies that meet twice a year, and ILO's continued participation provides the basis for ongoing dialogue and cooperation at an operational level. Regular ILO/IFI collaboration continues to be an essential

component of Treasury's international labor agenda. The Bank agreed in 1998 to include a review and analysis of core labor standards in the Bank's Country Assistance Strategies (CASs). The CAS is the basic planning document used by the World Bank, and it sets out how the Bank intends to use its lending and other programs to help countries meet their development goals.

IFI Collaboration

The World Bank has undertaken a number of activities to better collaborate with other multilateral development banks (MDBs) and the IMF:

Under the joint World Bank-IMF Financial Sector Assessment Program (FSAP), 48 countries have been reviewed and given advice on strengthening their financial sectors.

- The Bank and IMF have been increasing their efforts to diagnose weaknesses in borrowers' financial systems as well as providing technical assistance to vulnerable countries to combat terrorist financing and money laundering.
- Intensified coordination among all the MDBs includes regular meetings of the heads of these institutions and technical working groups focus on harmonization and convergence of MDB operations. To avoid duplication and enhance effectiveness, the World Bank has signed memoranda of understanding (MOU) with the African Development Bank, the Inter-American Development Bank and the Asian Development Bank (see also similar section in IDA chapter).

Opportunities for U.S. Businesses

In WBFY04, World Bank (IBRD/IDA) adjustment operations produced \$1.7 billion in business benefits to the U.S. (defined as IBRD/IDA payments to the U.S. for procurement of goods and services). World Bank (IBRD/IDA) investment lending produced \$148 million in business benefits to the U.S. in WBFY03.